The Kroger Co. 1973 annual report

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1973 Annual Report

1014 Vine Street, Cincinnati, Ohio 45201
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Contents

ABOUT THE COVER:

A colorful montage depicts the shopping excitement of Kroger's largest and finest superstore. The 42,000 square foot store, located in Cincinnati's Hyde Park Plaza West, opened January 27, 1974.

DIRECTORS

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H. U. ANDREAE, *Chairman of the Executive Committee,* The Jeffrey Company

JAMES E. BAKER, *Vice President*

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BEN H. CARPENTER, *Chairman of the Board,* Southland Life Insurance Company

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LYLE EVERINGHAM, *Vice President; President,* Kroger Food Stores

JAMES P. HERRING, *President and Chief Executive Officer*

GENE D. HOFFMAN, *Vice President; President,* Kroger Brands

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JAMES M. PHELAN, *Chairman of the Board,* A. T. Kearney, Inc.

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WILLIAM P. RUNYAN, *Vice President; President,* Top Value Enterprises, Inc.

R. NELSON SHAW, *Chairman and Chief Executive Officer,* Mercantile Stores Company, Inc.

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CORPORATE OFFICERS

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JAMES E. BAKER, *Vice President*

ROBERT W. BRAUNSCHWEIG, *Vice President*

JACK W. DAVIS, *Vice President*

LYLE EVERINGHAM, *Vice President; President,* Kroger Food Stores

JAMES P. HERRING, *President and Chief Executive Officer*

GENE D. HOFFMAN, *Vice President; President,* Kroger Brands

BENNETT A. HUDSON, *Vice President*

ARTHUR JUERGENS, *Vice President*

GEORGE A. LEONARD, *Vice President, Secretary and General Counsel*

WILLIAM W. OLIVER, *Vice President*

WILLIAM P. RUNYAN, *Vice President; President,* Top Value Enterprises, Inc.

ROBERT E. SAFFRON, *Vice President*

EDMOND M. SHIPP, *Vice President; President,* SupeRx Drug Stores

JOHN L. STRUBBE, *Vice President*

IRLE R. HICKS, *Treasurer*

CARL W. BRIESKE, *Assistant Treasurer*

LEWIS L. CLUM, *Assistant Secretary*

ARTHUR L. FERGUSON, *Assistant Secretary*

STANLEY R. SCHROTEL, *Assistant Secretary*

TRANSFER AGENTS

The First National Bank of Cincinnati
111 E. Fourth Street
Cincinnati, Ohio 45202

Bankers Trust Company
485 Lexington Avenue
New York, New York 10017

REGISTRARS

The Central Trust Company
Fourth and Vine Streets
Cincinnati, Ohio 45202

Chemical Bank
20 Pine Street
New York, New York 10015

THE KROGER CO. is the sixth largest retailing company in the United States as ranked by total sales. The company's operations include *Kroger Food Stores,* third largest supermarket chain, with 1285 supermarkets in 20 states, primarily in the Midwest and South. *Kroger Brands,* a major food manufacturer and the company's private brand procurement organization, serves primarily Kroger Food Stores. *SupeRx Drug Stores,* with 493 drug stores in 24 states at the close of 1973, is the fourth largest drug store chain. *Top Value Enterprises,* a wholly-owned subsidiary, is the nation's second largest trading stamp company and also is active in the fields of business incentive, promotional continuity programs and travel services.

Financial Highlights

	1973	1972*	Change
SALES	$ 4,204,677,433	$ 3,790,532,448	+10.9%
EARNINGS BEFORE EXTRAORDINARY ITEMS	$ 29,916,386	$ 25,126,981	+19.1%
EXTRAORDINARY LOSS		$ (5,340,920)	
EXTRAORDINARY CREDIT		$ 586,877	
NET EARNINGS	$ 29,916,386	$ 20,372,938	
DIVIDENDS PAID	$ 17,460,862	$ 17,406,554	
SHAREOWNERS' EQUITY	$ 392,852,229	$ 380,041,078	+3.4%
PER COMMON SHARE			
EARNINGS BEFORE EXTRAORDINARY ITEMS	$ 2.22	$ 1.87	+$.35
EXTRAORDINARY LOSS		$ (.40)	
EXTRAORDINARY CREDIT		$ .04	
NET EARNINGS	$ 2.22	$ 1.51	
DIVIDENDS	$ 1.30	$ 1.30	
SHAREOWNERS' EQUITY	$ 29.15	$ 28.24	+$.91

*Restated to reflect the change made in 1973 in accounting for inventories

The annual meeting of shareholders will be held at the office of the Company, 1014 Vine Street, Cincinnati, Ohio on April 11, 1974 at 10 a.m.

To our shareowners:

Nineteen seventy-three was an eventful year for the supermarket industry. For Kroger, it also was a year of progress and achievement. Change, for the past two years in particular, has been a constant. Many factors outside business have had an impact inside business. Kroger today has the flexibility, the ability and the knowledge to work with change.

The Kroger Co. finished 1973 with a strong fourth quarter to reach the $4 billion sales total for the first time in its 91-year history.

Improvement in both sales and earnings was steady and continued throughout the year. Better results were achieved in the face of many industry problems, such as economic controls, rising operating costs, product shortages, intense competition and the expense of custom-slaughtering of beef last summer.

The improvement in earnings for the year resulted from a number of factors—more effective merchandising programs, operating efficiencies, and the growing number of larger, modern food stores being developed under Kroger's accelerated store building program. Strong performances by Kroger Brands and SupeRx Drug Stores again were important factors in the company's profitability.

Dividends of $1.30 per common share were paid in 1973, marking the 72nd consecutive year in which dividends have been paid out of current earnings.

The favorable momentum which developed throughout the entire company in 1973 has carried into 1974, and we expect continued improvement.

Despite delays because of building material shortages, we are determined to maintain the pace of our building program for retail facilities as a necessary ingredient in the company's future progress. We plan to complete 110 new and 90 remodels of food stores during 1974, along with 65 new and 20 remodeled drug stores.

Capital expenditures for 1973 totaled $67.5 million and an increase is anticipated for 1974. The major part of our capital expenditures will continue to be channeled into retail facilities in 1974.

In short, our investments are going where the customers and the cash registers are.

We have the pattern for profitable growth. We know, market by market, exactly what our objectives are and what steps we will take to accomplish them. We plan to grow where we live, right in Kroger's own heartland.

In a continuing financing program in support of this development, we sold $60 million of 8.70% Sinking Fund Debentures in July. We also entered into an agreement for the $16 million sale and subsequent leaseback of the Houston distribution and manufacturing complex.

Revenues and earnings of Top Value Enterprises were adversely affected in 1973 primarily as a result of the fuel crisis and withdrawal of gasoline service stations from trading stamps. Top Value has adjusted its operations to meet the present level of stamp business. At the same time, it is increasing its activities in the fields of business incentives, promotional continuity programs and travel services. This spring, Lion Country Safari will open. This is the first phase of Kings Dominion, the family amusement complex near Richmond, Virginia, which is being built as a joint venture of Top Value and Taft Broadcasting Company. Kings Dominion, scheduled to open next year, is strategically located within easy access of key population centers on the East Coast with more than 11 million people within a 150-mile radius.

The change to the FIFO (first-in, first-out) method exclusively for valuing inventories, which is explained in detail in the financial pages of this Report, will place Kroger on a comparable basis as to inventory valuations with other major companies in the supermarket industry, almost all of which use the FIFO method.

During 1973 and into 1974, the company moved further into the streamlining of our food store operations by rearrangement of retail divisions into more viable and larger marketing areas. This new concept already is showing positive results.

We enter 1974 with determination and vigor, greatly encouraged by the fact that the large superstores which Kroger now is building are achieving sales volume and profitability faster than did standard stores of three or four years ago.

Chairman Robert O. Aders has decided to leave the company to enter the private practice of law in Washington. He will continue his work with industry and government representatives on public policy matters. While we regret he will not stand for re-election as Chairman in April, we are pleased he will continue to serve the company as a member of the Board of Directors.

Kroger's total marketing program . . . from retail facilities to merchandising to people . . . brings the company into the mid-1970s better equipped than ever before to compete effectively and to continue to progress according to plan.

Sincerely,

James P. Herring

President and
Chief Executive Officer

March 7, 1974

Remodel/expansion of existing stores into superstores complements and extends the total store building program. Above, opposite, and on page 7—Mooresville, Indiana.

"Our investments are going where the customers and the cash registers are."

What Makes a Kroger Superstore?

While some excellent smaller stores are being built in the superstore image, a true superstore — as defined by Kroger — is at least 25,000 square feet in size (they range up to 42,000) . . . it is first and foremost a fine *food* store which offers more choice for the consumer — greater variety in every department . . . it includes the shopping appeal of colorful specialty departments such as delicatessens . . . and adds a convenient assortment of food-and-family-related general merchandise.

This is where Kroger is investing money, time and talent today . . . at the retail level, where the customers, the cash registers and the sales are.

Last year Kroger Food Stores opened 80 new stores and remodeled 68 existing stores into the superstore concept . . . most with sizeable expansions. At the same time, 160 older, smaller or unprofitable stores were closed.

Although there could be some delays, such as material shortages, the company's accelerated program of improvement and upgrading of retail facilities will gain further momentum during 1974.

Plans call for 110 new and 90 remodel/expansions to be completed during the year, while 105 older stores will be closed. Average size of new stores to be opened this year is 29,000 square feet.

By early 1976, *nearly half* of all Kroger Food Stores will be in the superstore category. And virtually all these stores will be less than four years old.

"Our strong remodel program fulfills an obligation to serve our present loyal shoppers even better. And these remodeled stores provide a faster return on investment."

An important complement and a major part of the total retail development program is the remodeling and expansion program for existing stores which show potential for superstore volume and profitability. And when they are completed, these stores are, for all practical purposes, *new* stores in every sense of the word.

Take the superstore in Mooresville, Indiana, at the southern edge of Indianapolis, which is pictured in this Report. A big store when it opened back in 1962. It fit the criteria. It had the potential. So size was increased one-third to 29,515 square feet and a new superstore interior was dropped into the expanded shell of the old store.

Superstore remodel/expansions begin their new life with loyal customers, who already have established patterns of shopping in that location. They have a broad base on which to build. They reach maturity faster.

"We have the pattern for profitable growth. We know, market by market, exactly what our objectives are and what steps we will take to accomplish them. We plan to grow where we live."

Kroger's present building program is the most comprehensive and carefully-planned in the company's 91-year history. And it is proceeding according to plan.

Progress in specific growth markets with greater potential for sales volume. That's the goal. Not moving into new areas . . . but concentrating on doing a better job right in Kroger's own heartland.

The supermarket industry continues to be competitive. Kroger's total marketing program . . . from retail facilities to merchandising to people . . . brings the company into the mid-1970s better equipped than ever before to compete effectively and to continue to progress according to plan.

"Superstores have the kind of shopping excitement that produces sales. And the better mix of products moving past the checkstand helps us to improve profitability while enhancing our ability to be right on prices."

A superstore starts with the right kind of physical facilities in the right location. But it's a total package. It is also consumer-oriented merchandising, planned to meet the shopping needs of today's family. It is quality and variety. Personal contact. Friendliness. Service. Warmth of earth tones and glowing lights . . . and smiles.

And the right prices. Because superstores are larger and carry a much higher volume of traffic, it is possible to merchandise a broader variety of goods. Overall, margins will be improved. Not because the price of everyday needs . . . the potatoes, or bacon, or canned corn . . . is higher. But more products on which a better return can be realized are moving past the checkstand. Like general merchandise. Or Kroger's own brand products.

This improved mix of products at the checkstand can actually enhance the company's ability to be value-priced while producing increased profitability.

Superstore merchandising is keyed to as many people as possible . . . fine-tuned and tailored to the market it serves. And while this merchandising approach is designed first for superstores, it is at the same time helping Kroger do a better job in all its supermarkets.

Consumer's choice . . . prepackaged produce if that's how she likes it, but also loose if that's her preference.

"There's a compatibility between the superstore and Kroger's own brands. We tell shoppers 'The Choice Is Yours' and more and more of them are choosing the value represented by Kroger brands."

The superstore has an affinity for Kroger's own brands. It offers space for favorable exposure and display — without taking away from the shopper's expectations for variety.

This comes at a time when consumer awareness of the value of private brand products is growing. But she still likes the privilege of making the decision for herself.

In the superstore, she has it.

Kroger brand products account for nearly one-quarter of food store sales. And they're designed to win repeat customers. Quality equal to or better than its national brand counterpart. Yet lower-priced. Consumers benefit twice when they choose the Kroger brand . . . and Kroger makes more profit.

When a new Kroger brand product reaches a store shelf (as some 158 did during 1973), it represents the combined judgment and talent of Kroger Brands (the company's manufacturing and private brand procurement arm) and Kroger Food Stores (the merchandising and sales arm).

The superstore offers the right showcase. And Kroger tells shoppers: Here's a value. Here's quality. You decide. The Choice Is Yours.

Manufacturing Services Expanded

- As Kroger continues its efforts to provide meaningful information to help consumers make wise shopping choices, a new nutritional laboratory was opened in Cincinnati. This laboratory, among the finest of its type in the country, will assist Kroger as it begins listing of nutrients on food labels as well as in analysis and testing in connection with product development and improvement.

- At the close of 1973, there were 250 delicatessens in Kroger stores, often with service bakeries. As the superstore delicatessen program expands — 400 are expected by the end of 1974 — specialized services are needed to provide high-quality products for these stores.

To provide closer control of quality and supply, a new center has been established which will serve initially as a distribution point for delicatessen items . . . and eventually will move into preparation of fine foods to serve this operation.

- The Kroger Indianapolis "space age" dairy, in its first full year of operation, has reached and surpassed all goals. Frozen novelties, which formerly were purchased from outside vendors, now are being made in Indianapolis for the entire company. The high quality and attractive presentation of these products has resulted in a sizeable increase in sales in 1973 versus 1972.

- Kroger cheese also continues to grow in popularity. To enable the company to compete even more effectively and to assure high quality at all times, a new cheese processing and packaging plant in Minnesota will open later this year. Located in the heart of a major milk producing area, the plant will extend the availability of fine Kroger cheeses throughout the company.

ABOVE:
Remodeled stores are for all practical purposes truly NEW superstores

LEFT:
"A sample of cheese?" Popular feature of the new 42,000 square foot superstore in Cincinnati's Hyde Park Plaza West is the Village Cheese Shop.

RIGHT:
A young shopper anticipates doughnut delights.

One-stop shopping convenience . . . here the hospitality center offers greeting cards and candles.

High-quality Kroger cheeses, here being packaged, continue to win shopper votes.

"We are finding that we must give closer, more imaginative attention than ever before to management education and development in order to equip managers properly to meet today's demands."

Kroger through the years has grown with the aid of highly-motivated, highly-effective men and women. Depth in management, with potential identified at several levels, has been a particular strength.

As the superstore program moves strongly into the forefront, people needs are intensifying. During 1974 alone, Kroger Food Stores will require more than 250 qualified store managers and co-managers, more than 1,000 store department heads, and approximately 20,000 clerks to operate the oncoming superstores.

To meet these expanded needs, Kroger has been broadening and intensifying its training efforts . . . in scope, in depth, and in the levels of personnel to receive specialized management skills education.

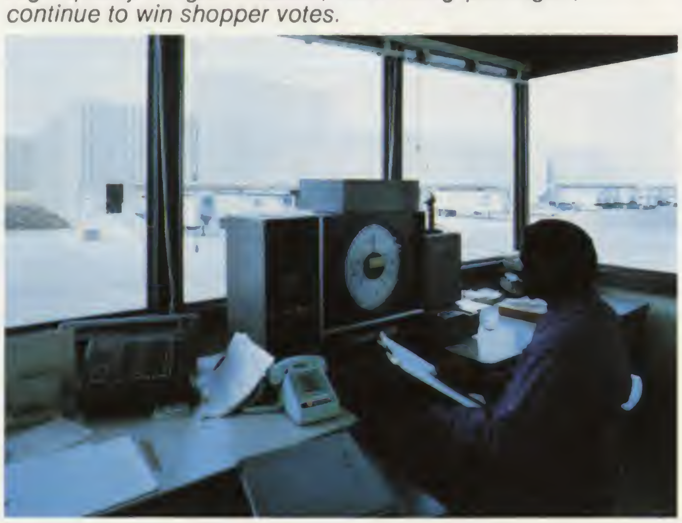
For example, not only the superstore manager, but also the store department heads will receive management skills training. Typically knowledgable and leaders by example, these store department heads, with newly broadened responsibilities, must apply management principles to their leadership role for full effectiveness and proper department results.

In early spring 1974, a Kroger Education Center will open in Cincinnati. Initially it will serve the broad-based needs of four surrounding retail divisions. It also will provide management education for new superstore managers as well as general management training for all the company's businesses.

This self-contained center will include living quarters designed for study, as well as classrooms, for maximum efficiency and concentration.

The curriculum? Practical and provocative — planned to open new vistas to Kroger managers. The everyday needs — work methods and scheduling. But also the philosophy of running a \$5-to-\$10 million versus a \$2 million business. How to build a store climate which will help people find job satisfaction. Or how to deal effectively with customers . . .

The main purpose: To assist Kroger managers, through continuing management education, to develop a more productive personal style of management.



Groceries start on their way to Kroger Food Stores. At the Houston distribution center, dispatcher directs trucks from tower.

Improved Kroger labeling helps consumers. ABOVE: Simplified meat labeling which also includes identification of primal cut. Open date signifies final sale date to assure freshness. BELOW LEFT: New nutritional labeling as well as listing of ingredients in product. Bar symbol is Universal Product Code which eventually will identify all products in the United States.

"We're listening, and we're hearing and we're responding voluntarily in many ways to meet increasing consumer expectations. We believe these responses are helping the people we serve and at the same time, are helping to build a better, stronger company."

Throughout Kroger there's a spirit of concern and responsiveness which expresses itself in many tangible ways.

During 1973, Kroger:
— Extended its open dating program to cover meats and fresh fruits and vegetables. Kroger now is open-dating some 1,900 food products in one of the broadest programs in the country.

— Began a voluntary program of simplified meat labeling which also indicates the primal cut from which the meat came. This program will be companywide by mid-1974.

— Continued to improve label information for consumers . . . ingredient listing on "standards of identity" products . . . metric weight as well as pints, pounds or ounces. And nutritional labeling will be incorporated into some 300 labels this year.

Affirmative Action Plan

While equal opportunity employment always has been a firm policy of The Kroger Co., this long-standing policy now has been formalized in an Affirmative Action Plan.

This is a voluntary effort intended to make even more effective Kroger's determination to provide equal opportunity regardless of race or sex.

Special attention will be given over the next year to increasing significantly the representation, utilization and advancement of minorities and females within Kroger.

To Help Us Hear Consumers Better

Kroger top management is meeting several times a year with the company's Consumer Advisory Council . . . 15 women from throughout Kroger's operating area chosen for their divergent backgrounds and interests to give as broad a representation as possible.

These women, who serve on a volunteer basis, respond . . . react . . . interact . . . give their frank views on everything from Kroger products and services to corporate responsibility. They are providing one more way for Kroger management to hear first-hand the voice of the consumer.

BELOW: The subject is food store advertising. Consumer Advisory Council meets with Kroger advertising vice president Lee Davis.

"At SupeRx, professionalism — in people, in facilities, in merchandising — produces sales and profits."

The year 1973 was the best sales and profit year in SupeRx history . . . and drug stores continued to represent an important factor in the progress of the total company.

It has been only a little over 12 years since the first SupeRx Drug Store opened its doors in Milford, Ohio. Early in 1974, SupeRx celebrated its 500th drug store.

The company now is the fourth largest drug store chain in the United States . . . with operations stretching into 23 states.

SupeRx grew by providing the kind of drug store service consumers wanted . . . Bright, clean, colorful stores which complement, always, the quality image of the pharmacy department while fulfilling other beauty, health, home and leisure-time shopping needs of families.

Now consumer needs are expanding. To meet them, SupeRx has developed its counterpart of the Kroger superstore. These "giant drug centers" are double the size of those first SupeRx drug stores.

From the thatched roof of the Tiki Hut with its exotic imported gift and home decorator items to the expanded camera, stereo and home appliance department, today's SupeRx store is keyed to the family shopper. But always the pharmacy is the dominant part of the store.

Since its founding, SupeRx has filled more than 125 million prescriptions. Early in 1974, in recognition of this achievement, SupeRx was chosen to receive the Eli Lilly Award . . . given to only a few in the industry for outstanding professional excellence.

Many, though not all, SupeRx Drug Stores are next-door neighbors to a Kroger Food Store. Together, Kroger and SupeRx form a convenient and complete shopping package — a superstore and a giant drug center which provide just about all of a family's week-to-week needs.

People Grow With Progress

Throughout SupeRx, pharmacy is the dominant force . . . by design. And nowhere is this more evident than in its management team.

Store managers. Buyers. Vice presidents. Those are the kinds of jobs held by pharmacists at SupeRx . . . who fill some 50% of management jobs including 47 of the top 65 executive positions.

Promotions from within, with store management providing the springboard . . . that's the SupeRx pattern. And the man or woman with management ability receives training to supplement and extend the full potential of that ability.

Training throughout is keyed personally to the individual. Merchandising. Inventory management. Personnel development. Whatever the management person needs to prepare him or her for new responsibilities.

Meet a SupeRx Pharmacist

Before a pharmacist is hired by SupeRx, he (or she, since more and more women are entering the field of pharmacy) already has spent five years at an accredited College of Pharmacy, as well as a 2000-hour internship. Then he must pass a three-day examination before he is licensed by the state as a registered pharmacist.

He brings a responsibility and a personal and professional viewpoint into the store with him that is reflected in every department.

SupeRx builds on this background. Training carries him through six phases designed to teach him to manage every section of the store. And in a giant drug center, this includes development of merchandising skills to match the demands of growing responsibilities.

The manager of a SupeRx giant drug center is a bigger person in a bigger job. More responsibility. More decisions. More challenge. It's the exciting way of the future.

Retail Store Development

SupeRx is preparing for the expanded opportunities of the 1970s.

Approximately half of SupeRx' 500 drug stores opened during the past five years. They are advantageously located in major growth areas which offer unique opportunities for expansion.

The tempo will pick up during 1974 with 65 new stores and 20 remodel/expansions planned . . . most in the range of 13,000 to 18,000 square feet.

To serve these stores more effectively, SupeRx is building a new national headquarters in Springdale, Ohio, north of Cincinnati, which is scheduled to open at the end of 1974.

An unusual feature of SupeRx' headquarters is a complete mock drug store where merchandising displays are developed for stores across the country . . . thus providing a blueprint to assist store managers to achieve full effectiveness in merchandising.

SupeRx anticipates 1974 as another year of opportunity.

BELOW:
New national headquarters for SupeRx Drug Stores . . . scheduled to open at year-end.

FINANCIAL REVIEW

Sales for 1973 were $4.2 billion, an improvement of 10.9% over 1972. Net earnings were $29.9 million, an improvement of 19.1% over 1972 earnings before extraordinary items. Sales and earnings before extraordinary items by principal lines of business for the five years 1969 through 1973 were as follows:

	1973	1972(a)	1971(a)	1970(a)	1969(a)
			(in millions of dollars)		
Sales:					
Food Business	**$3,857**	$3,474	$3,413	$3,459	$3,232
Drug Stores	**348**	317	295	277	245
Total	**$4,205**	$3,791	$3,708	$3,736	$3,477
Earnings:					
Food Business	**$ 25.5**	$ 16.0	$ 56.8	$ 69.5	$ 64.9
Drug Stores	**16.2**	12.9	9.7	14.6	12.6
	$ 41.7	$ 28.9	$ 66.5	$ 84.1	$ 77.5
Taxes based on income	**19.0**	11.8	31.4	43.0	38.7
	$ 22.7	$ 17.1	$ 35.1	$ 41.1	$ 38.8
Equity in net earnings of unconsolidated companies	**7.2**	8.0	2.6	2.5	2.2
Earnings before extraordinary items	**$ 29.9**	$ 25.1	$ 37.7	$ 43.6	$ 41.0

(a) Restated to show effect of change from LIFO to FIFO, as described below.

Sales for the fourth quarter of 1973 were $1.1 billion, an improvement of 11.7% over the like period of 1972. At the same time, earnings of $14.1 million reflected a 40.7% improvement over the fourth quarter of 1972. Quarterly sales and earnings per share for 1973 and 1972 before extraordinary items were as follows:

	Sales In Millions		**Earnings Per Share**	
Quarter	**1973**	**1972**	**1973**	**1972(a)**
1st (12 wks.)	**$ 928**	$ 836	**$ .27**	$ .99
2nd (12 wks.)	**958**	836	**.41**	.41
3rd (16 wks.)	**1,262**	1,172	**.50**	(.27)
4th (12 wks.)	**1,057**	947	**1.04**	.74
	$4,205	$3,791	**$2.22**	$1.87

(a) Restated

Investment tax credits in 1973 amounted to 23¢ per share compared to 28¢ per share in 1972. Equity in net earnings of unconsolidated companies amounted to $7.2 million or 53¢ per share compared to $8.0 million or 59¢ per share in 1972. Net earnings of Top Value Enterprises, Inc., an unconsolidated subsidiary, includes gains on sale of securities, after applicable taxes, equal to 32¢ per share in 1973 and 53¢ per share in 1972, a decrease of 21¢ per share. Net earnings of Top Value in 1973 also includes a non-recurring year-end adjustment of $3.9 million or 29¢ per share resulting from a reduction in its estimated liability for unredeemed trading stamps. This adjustment was based upon a statistical study in compliance with a federal tax regulation effective for 1973.

The Company discontinued the LIFO (last-in, first-out) method of inventory valuation which had been utilized, in part, since 1950. The rate of inflation in merchandise costs in 1973 and for the foreseeable future is so high that significant understatements of earnings and inventory valuations would result when compared to other methods. The reported earnings for 1973 and the restated results for prior years on the FIFO (first-in, first-out) method are on a comparable basis as to inventory valuations with other major companies in the supermarket industry, almost all of which use the FIFO method.

Capital expenditures for 1973 totaled $67.5 million up from $55.3 million in 1972. Expenditures in 1973 included $50.0 million, or 74.1% of the total, for retail stores and related equipment; $8.0 million for food processing facilities and equipment; and $8.7 million for distribution centers, equipment and vehicles.

On July 31, 1973, Kroger sold $60 million of 8.70% Sinking Fund Debentures due in 1998. This was the Company's second sale of its debt securities to the public. The net proceeds from the sale of the debentures were added to the general funds of the Company and will be used to finance, in part, the accelerating new store program discussed elsewhere in this report.

During the year the Company also entered into an agreement for the sale and subsequent leaseback of its distribution and manufacturing complex located in Houston, Texas. The total proceeds from the transaction were $16 million.

Dividends of $1.30 per common share were paid in 1973 which marks the 72nd consecutive year in which dividends have been paid out of current earnings. The regular quarterly dividend of 32½¢ per share, payable March 1, 1974, to shareowners of record February 1, 1974, was declared on January 11, 1974.

CONSOLIDATED STATEMENT OF EARNINGS

Years Ended December 29, 1973 and December 30, 1972	**1973 (52 Weeks)**	1972* (52 Weeks)
Sales	**$4,204,677,433**	$3,790,532,448
Costs and Expenses:		
Merchandise costs including warehousing and transportation	**$3,310,988,429**	$2,979,140,910
Operating, general and administrative expenses	**733,154,456**	675,554,930
Rent	**66,012,763**	60,106,665
Depreciation and amortization	**40,930,822**	38,296,453
Interest on long-term debt	**9,149,349**	7,646,972
Other interest expense	**2,685,275**	779,990
Taxes based on income	**19,035,239**	11,831,803
Total	**$4,181,956,333**	$3,773,357,723
Earnings before equity in net earnings of unconsolidated companies and extraordinary items	**$ 22,721,100**	$ 17,174,725
Equity in net earnings of unconsolidated companies	**7,195,286**	7,952,256
Earnings before extraordinary loss, and credit resulting from a change in the method of applying an accounting principle	**$ 29,916,386**	$ 25,126,981
Extraordinary loss, net of tax benefits		(5,340,920)
Credit resulting from a change in the method of applying an accounting principle		586,877
Net Earnings	**$ 29,916,386**	$ 20,372,938
Average number of shares of common stock outstanding	**13,465,022**	13,448,068
Per share of common stock:		
Earnings before extraordinary loss, and credit resulting from a change in the method of applying an accounting principle	**$ 2.22**	$ 1.87
Extraordinary loss		(.40)
Credit resulting from a change in the method of applying an accounting principle		.04
Net earnings	**$ 2.22**	$ 1.51

CONSOLIDATED STATEMENT OF ACCUMULATED EARNINGS

Years Ended December 29, 1973 and December 30, 1972	**1973**	1972*
Accumulated earnings — Beginning of the year	**$ 301,334,665**	$ 273,635,341
Inventory valuation adjustment (for the years 1950 through 1971)		24,732,940
As restated	**$ 301,334,665**	$ 298,368,281
Net earnings for the year (1972 restated)	**29,916,386**	20,372,938
Treasury stock transactions	**(410,687)**	
	$ 330,840,364	$ 318,741,219
Dividends on common stock — $1.30 per share	**17,460,862**	17,406,554
Accumulated earnings — End of the year	**$ 313,379,502**	$ 301,334,665

The accompanying notes are an integral part of the financial statements.

**Restated to reflect the change made in 1973 in accounting for inventories.*

CONSOLIDATED BALANCE SHEET

ASSETS	DEC. 29, 1973	DEC. 30, 1972*
CURRENT ASSETS		
Cash	**$ 50,338.156**	$ 35,125,543
Short-term investments	**20,046,781**	20,006,111
Receivables	**69,141.086**	53,423,149
Inventories	**404,250,492**	351,857,795
Store and general supplies	**4,831,375**	3,745,953
Prepaid and miscellaneous assets	**14,904,155**	18,634,426
Total current assets	**$563,512,045**	$482,792,977
PROPERTY, PLANT AND EQUIPMENT		
Land	**$ 14,903,650**	$ 16,292,446
Buildings	**65,494,735**	76,272,763
Equipment	**375,572,642**	360,870,394
Leaseholds and leasehold improvements	**116,251,670**	107,017,193
	$572,222,697	$560,452,796
Allowance for depreciation and amortization	**245,003,534**	235,240,764
Property, plant and equipment, net	**$327,219,163**	$325,212,032
INVESTMENTS AND OTHER ASSETS		
Investments in and advances to unconsolidated companies	**$ 37,981,531**	$ 32,881,031
Other investments, at cost, and other assets	**5,644,524**	7,198,047
Excess of cost of investments in consolidated subsidiaries over equities in net assets	**15,820,060**	14,050,755
Total investments and other assets	**$ 59,446,115**	$ 54,129,833
Total Assets	**$950,177,323**	$862,134,842

LIABILITIES

	DEC. 29, 1973	DEC. 30, 1972*
CURRENT LIABILITIES		
Current portion of long-term debt	**$ 1,510,000**	$ 1,510,000
Accounts payable	**209,767,046**	208,914,982
Accrued expenses	**93,135,573**	81,572,607
Accrued federal income and other taxes	**14,105,638**	12,588,714
Total current liabilities	**$318,518,257**	$304,586,303
OTHER LIABILITIES		
Long-term debt	**$148,980,000**	$ 90,490,000
Deferred federal income taxes	**52,010,000**	47,058,224
Employees' benefit fund	**37,816,837**	39,959,237
Total other liabilities	**$238,806,837**	$177,507,461
Total Liabilities	**$557,325,094**	$482,093,764

SHAREOWNERS' EQUITY

Common capital stock, par $1, at stated value		
Authorized: 18,000,000 shares		
Issued: 13,741,977	**$ 88,555,289**	$ 88,555,289
Accumulated earnings	**313,379,502**	301,334,665
	$401,934,791	$389,889,954
Common stock in treasury, at cost		
1973 — 264,923 shares; 1972 — 286,772 shares	**9,082,562**	9,848,876
Total Shareowners' Equity	**$392,852,229**	$380,041,078
Total Liabilities and Shareowners' Equity	**$950,177,323**	$862,134,842

The accompanying notes are an integral part of the financial statements.
**Restated to reflect the change made in 1973 in accounting for inventories.*

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

Years Ended December 29, 1973 and December 30, 1972	**1973 (52 Weeks)**	1972* (52 Weeks)
SOURCES OF WORKING CAPITAL		
From operations:		
Earnings before extraordinary loss, and credit resulting from a change in the method of applying an accounting principle	**$ 29,916,386**	$ 25,126,981
Charges (credits) to earnings not requiring funds:		
Depreciation and amortization	**40,930,822**	38,296,453
Provision for deferred federal income taxes	**4,951,776**	2,914,888
Equity in net earnings of unconsolidated companies	**(7,195,286)**	(7,952,256)
Total sources from operations before extraordinary loss	**$ 68,603,698**	$ 58,386,066
Extraordinary loss		(5,340,920)
Charges to extraordinary loss not requiring funds		932,913
Total sources from operations	**$ 68,603,698**	$ 53,978,059
Capital stock issued for acquisition	**280,000**	
Capital stock issued under option plans		450,943
Additions to long-term debt	**60,000,000**	
Sale of capital assets subsequently leased back	**16,000,000**	
Net book value of capital asset disposals	**13,818,361**	8,018,338
Total sources	**$158,702,059**	$ 62,447,340
USES OF WORKING CAPITAL		
Capital expenditures	**$ 67,489,030**	$ 55,335,141
Dividends paid	**17,460,862**	17,406,554
Purchase of capital stock for treasury	**33,413**	
Reductions of long-term debt	**1,510,000**	1,510,000
Employees' benefit fund payments, net of provision	**2,142,400**	1,082,239
Other changes, net	**3,279,240**	849,195
Total uses	**$ 91,914,945**	$ 76,183,129
Net increase (decrease) in working capital	**$ 66,787,114**	$(13,735,789)

ANALYSIS OF WORKING CAPITAL CHANGES

	Increase (Decrease)	
Current asset changes:		
Cash and short-term investments	**$ 15,253,283**	$ (4,127,594)
Inventories	**52,392,697**	32,376,326
Other current assets	**13,073,088**	12,429,033
Net increase in current assets	**$ 80,719,068**	$ 40,677,765
Current liability changes:		
Current portion of long-term debt		$ (198,000)
Accounts payable	**$ 852,064**	49,787,644
Accrued expenses and taxes	**13,079,890**	4,823,910
Net increase in current liabilities	**$ 13,931,954**	$ 54,413,554
Net increase (decrease) in working capital	**$ 66,787,114**	$(13,735,789)

The accompanying notes are an integral part of the financial statements.
**Restated to reflect the change made in 1973 in accounting for inventories.*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

ACCOUNTING POLICIES

The following is a summary of the significant accounting policies followed in preparing the Company's financial statements. These policies conform to generally accepted accounting principles and have been consistently applied after restatement for the change in the method of inventory valuation.

Principles of Consolidation

The consolidated financial statements include the Company and all of its domestic subsidiaries except Top Value Enterprises, Inc., one other subsidiary and all partially-owned affiliated companies, all of which are included in the statement of earnings on the equity basis.

Inventories

The inventories are valued at the lower of cost or market with cost determined on the retail and first-in, first-out methods. See note Accounting Change—Inventory.

Property, Plant and Equipment

Property, plant and equipment are stated at cost. Depreciation and amortization is computed principally on the straight-line basis.

Excess of Cost of Investments in Consolidated Subsidiaries Over Equities in Net Assets

The excess of cost of investments in consolidated subsidiaries over equities in net assets at dates of acquisition originating prior to November, 1970 is not being amortized because, in the opinion of management, there has been no decrease in value. Amounts arising after October, 1970 are not significant and are being amortized by the straight-line method over forty years.

Deferred Federal Income Taxes and Investment Tax Credit

Deferred federal income taxes include the amount of tax applicable to the excess of depreciation for tax purposes over the normal depreciation used for financial reporting purposes and the amount of tax applicable to the change from the LIFO (last-in, first-out) to the FIFO (first-in, first-out) method of inventory valuation (see note Accounting Change—Inventory), net of the amount of tax credits applicable to the unfunded portion of employees' benefit fund expense which has been charged to income.

Investment tax credits are included as reductions of income tax expense in the years in which the credits arise.

RECEIVABLES

Receivables at December 29, 1973 include $10,500,000 received in February, 1974 resulting from the sale in 1973 of the office, warehouse and food processing facilities in Houston, Texas, and $14,650,000 received in January, 1974 representing the final proceeds from the sale of the 8.70% Sinking Fund Debentures.

ACCOUNTING CHANGE — INVENTORY

For the years 1950 through 1972 the LIFO (last-in, first-out) method of inventory valuation had been used for a portion of the consolidated inventory. During 1973 the FIFO (first-in, first-out) method was adopted for inventories previously valued using the LIFO method. This change results in greater comparability of the financial statements of the Company to those of other major companies in the supermarket industry, the great majority of which use the FIFO method of valuing inventories.

As a result of adopting FIFO for 1973, consolidated net earnings are higher than they would have been on a LIFO basis by approximately $10,508,000 or 78¢ per share. As required by generally accepted accounting principles, the Company has retroactively adjusted its financial statements of prior years for this change. Accordingly, the 1972 financial statements have been restated resulting in an increase in net earnings of $1,947,712 or 14¢ per share and accumulated earnings at January 2, 1972 has been increased $24,732,940. Inventories and deferred federal income taxes at December 30, 1972 have been increased by $51,308,947 and $25,066,224, respectively. For federal income tax purposes, the adjustment to inventory amounts will be taken into taxable income ratably over 20 years commencing with the year ended December 29, 1973.

UNCONSOLIDATED COMPANIES

The Company's equity in the net earnings of unconsolidated subsidiaries and partially-owned affiliated companies includes the net earnings of Top Value Enterprises, Inc. in the amount of $4,660,240 for 1973 and $8,020,930 for 1972. These amounts include gains on sale of securities, after applicable taxes, of $4,295,346 and $7,072,365 for 1973 and 1972, respectively. In compliance with a federal income tax regulation effective for 1973, Top Value Enterprises, Inc. completed a statistical study of its stamp redemption experience. Based upon the experience indicated by this study, consolidated net earnings for 1973 have been increased by $3,900,000, or 29¢ per share of The Kroger Co. common stock, resulting from the reduction of its estimated liability for unredeemed trading stamps for the cumulative amount applicable to years prior to 1973. The portion of this amount applicable to 1972 is not determinable. The estimated stamp redemption provision for 1973 is based upon current redemption experience.

During 1972, the Company changed its method of accounting for the earnings of Top Value Enterprises, Inc., which has a fiscal year ending in March, to a calendar year basis to conform to the reporting period of its parent. As a result of this change, earnings of Top Value Enterprises, Inc. for the period March 28, 1971 through January 1, 1972 are shown as a credit to earnings in 1972 of $586,877 resulting from a change in the method of applying an accounting principle.

Investments in and advances to unconsolidated companies at December 29, 1973 include:

Top Value Enterprises, Inc. at cost plus share of undistributed earnings since acquisition	$26,325,920
Other domestic subsidiaries and partially-owned affiliated companies, at cost plus share of undistributed earnings since acquisition	10,793,342
Foreign subsidiaries, at cost	862,269
	$37,981,531

PENSION PLANS

The Company has two noncontributory retirement plans for eligible employees, one funded and one unfunded. The Company also contributes to multi-employer plans jointly administered by management and union representatives.

The actuarially computed value of vested benefits for the Company administered plans as of December 29, 1973 exceeded the total of the pension fund and balance sheet accruals by approximately $26,707,000. Past service costs for the Company's plans are being amortized over forty years.

The total pension expense for all plans for 1973 and 1972 was $23,826,536 and $21,413,458, respectively.

EXTRAORDINARY LOSS

During the fourth quarter of 1972, the Company discontinued its Family Center Stores operation. The loss in the amount of $5,340,920 after deducting tax benefits of $4,930,080 includes known and anticipated costs relating to the liquidation of assets and termination of the operations.

TAXES BASED ON INCOME

The provision for taxes based on income consists of:

	1973	1972
Federal		
Current	$ 8,340,224	$ 4,103,080
Deferred	4,951,776	2,914,888
	$13,292,000	$ 7,017,968
State and Local		
Current	5,743,239	4,813,835
Total	$19,035,239	$11,831,803

The provision for taxes based on income is lower than the normal statutory corporate tax rate principally due to investment tax credits which reduced the tax provision by $3,058,000 in 1973 and $3,705,000 in 1972.

The Company follows the practice of reinvesting permanently the after-tax earnings of subsidiaries in order to meet the requirements of the business and, therefore, has not considered any additional tax provision to be appropriate. Undistributed earnings, exclusive of those amounts which if remitted in the near future would result in little or no tax because of current income tax laws, are not material in amount.

LEASES

The Company operates principally in leased premises. Lease terms generally range from ten to twenty-five years with options of renewal for additional periods. Options provide in some cases for renewals at reduced rentals and/or the right to purchase. The Company's lease arrangements have been classified as either noncapitalized finance leases or operating leases for purposes of this disclosure in accordance with the requirements of the Securities and Exchange Commission.

Rent expense on all leases consists of:

1973	Finance Leases	Operating Leases	Total
Minimum rentals, net of minor sublease rentals	$15,812,297	$46,705,185	$62,517,482
Contingent rental payments	490,734	3,004,547	3,495,281
Total	$16,303,031	$49,709,732	$66,012,763
1972			
Minimum rentals, net of minor sublease rentals	$14,403,744	$43,288,363	$57,692,107
Contingent rental payments	321,963	2,092,595	2,414,558
Total	$14,725,707	$45,380,958	$60,106,665

Certain of the leases provide for contingent rental based upon a percent of sales.

Aggregate minimum annual rentals, net of subleased rentals which are minor in amount, for leases in effect at December 29, 1973 are as follows:

	Finance Leases	Operating Leases	Total
1974	$ 18,288,000	$ 46,066,000	$ 64,354,000
1975	18,073,000	42,481,000	60,554,000
1976	17,822,000	38,944,000	56,766,000
1977	17,453,000	35,502,000	52,955,000
1978	17,321,000	31,824,000	49,145,000
1979-1983	83,445,000	126,642,000	210,087,000
1984-1988	67,541,000	73,823,000	141,364,000
1989-1993	47,339,000	35,667,000	83,006,000
1994-2003	39,673,000	—0—	39,673,000
	$326,955,000	$430,949,000	$757,904,000

The present value of all future payments on noncapitalized finance leases at December 29, 1973 and December 30, 1972 on real property amounted to $162,127,000 and $144,552,000, respectively. Interest rates used in the present value computation ranged from 4.5% - 10.0% and the weighted average interest rates used were 7.0% and 6.5% for 1973 and 1972, respectively.

If all noncapitalized finance leases were capitalized, the effect on net earnings for the years ended December 29, 1973 and December 30, 1972 would have been as follows:

	1973	1972
Rental payments, net of related taxes and insurance	$ 15,484,000	$ 14,176,000
Amortization of property rights on a straight-line basis	(8,024,000)	(7,517,000)
Interest expense	(9,467,000)	(8,759,000)
	$(2,007,000)	$(2,100,000)
Taxes based on income	1,040,000	1,135,000
Decrease in net earnings	$(967,000)	$(965,000)

DEBT OBLIGATIONS

Long-term debt at December 29, 1973 included:

8⅞% notes maturing in 1975	$ 25,000,000
5½% notes maturing in 1977; with annual prepayments of $160,000	640,000
5¼% notes, 70% maturing in 1978, and 30% maturing in 1979; with annual prepayments of $500,000	5,150,000
6¼% notes maturing in 1980; with annual prepayments of $100,000	700,000
5.3% notes maturing in 1981; with annual prepayments of $750,000	9,000,000
9% sinking fund debentures maturing in 1995; with annual prepayments of $2,500,000 commencing in 1976	50,000,000
8.70% sinking fund debentures maturing in 1998; with annual prepayments of $3,000,000 commencing in 1979	60,000,000
	$150,490,000
Less amount due within one year	1,510,000
	$148,980,000

Under certain of the loan agreements, payments of cash dividends are limited. Under the most limiting agreement, accumulated earnings were unrestricted in the amount of $62,422,111 at December 29, 1973.

Short-term borrowings of the Company averaged $26,683,000 and have ranged up to $58,300,000 during 1973 at a weighted average annual interest cost of 7.7%.

PREFERRED STOCK

The Company has authorized 750,000 shares of voting cumulative preferred stock. The stock has a par value of $50 per share and is issuable in series. None is outstanding at December 29, 1973.

COMMON STOCK

Changes in common stock during 1972 and 1973 were as follows:

	Issued		Treasury	
	Shares	Amount	Shares	Amount
Balance, Jan. 2, 1972	13,722,402	$88,104,346	286,772	$9,848,876
Exercise of Options	19,575	450,943		
Balance, Dec. 30, 1972	13,741,977	$88,555,289	286,772	$9,848,876
Acquired			1,900	33,413
Issued			(23,749)	(799,727)
Balance, Dec. 29, 1973	13,741,977	$88,555,289	264,923	$9,082,562

The Company has entered into a compensation agreement providing for the transfer of 15,000 shares of common stock held in the Company's treasury. The Company, as of December 29, 1973, had issued 6,750 such shares having a fair market value of $109,040 at the date of transfer. The excess of the cost of such shares over the fair market value at the date of issue has been charged to accumulated earnings.

The Company issued 16,999 shares from its treasury for purchase of a company during 1973.

STOCK OPTION PLANS

At December 29, 1973, options to purchase common stock of the Company were outstanding under the 1965 and 1969 Stock Option Plans. Options may be granted under the 1965 and 1969 Plans until 1975 and 1979, respectively. At December 29, 1973, shares of common stock available for future options under the 1965 and 1969 Plans amounted to 41,375 shares and 5,536 shares, respectively. Options are granted at a price equal to the fair market value of the stock at the date of grant.

At December 30, 1972, options to purchase 320,039 shares of common stock were outstanding. Option transactions during 1973 may be summarized as follows: granted 151,100 shares (at prices ranging from $15.81 to $23.25 per share); expired or cancelled 74,455 shares. Options to purchase 396,684 shares (at prices ranging from $15.81 to $37.31 per share) were outstanding at December 29, 1973. Options for 159,529 shares were exercisable at December 29, 1973.

REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

To the Shareowners and
Board of Directors
The Kroger Co.

We have examined the consolidated balance sheet of The Kroger Co. and Consolidated Subsidiary Companies as of December 29, 1973, and the related consolidated statements of earnings, accumulated earnings and changes in financial position for the 52 weeks then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We did not examine the financial statements of Top Value Enterprises, Inc., an unconsolidated subsidiary. These statements were examined by other independent certified public accountants whose report thereon has been furnished to us and our opinion expressed herein, insofar as it relates to the amounts included for Top Value Enterprises, Inc., is based solely upon the report of the other accountants. We previously examined and reported upon the consolidated financial statements of The Kroger Co. and Consolidated Subsidiary Companies for the 52 weeks ended December 30, 1972.

In our opinion, based upon our examination and the report of other accountants, the above referred to financial statements present fairly the consolidated financial position of The Kroger Co. and Consolidated Subsidiary Companies at December 29, 1973 and December 30, 1972, and the consolidated results of their operations and changes in financial position for the 52 week periods then ended in conformity with generally accepted accounting principles applied on a consistent basis after restatement for the change, in which we concur, in the method of inventory valuation as explained in the Notes to Consolidated Financial Statements.

Coopers & Lybrand

Coopers & Lybrand
3800 Carew Tower
Cincinnati, Ohio 45202
February 15, 1974

FIVE YEAR SUMMARY

EARNINGS STATISTICS *(thousands of dollars, except per share figures)*	1973	1972(e)	1971(e)	1970(c)(e)	1969(e)
Sales	**$4,204,677**	3,790,532	3,707,918	3,735,774	3,477,164
Earnings Before Extraordinary Items	**$ 29,916**	25,127(a)	37,747(b)	43,583	40,983(d)
Dividends	**$ 17,461**	17,407	17,370	17,192	17,034
Per Share					
Earnings Before Extraordinary Items	**$ 2.22**	1.87(a)	2.82(b)	3.29	3.11(d)
Dividends	**$ 1.30**	1.30	1.30	1.30	1.30

BALANCE SHEET STATISTICS *(thousands of dollars, except per share figures)*	1973	1972(e)	1971(e)	1970(c)(e)	1969(e)
Inventories	**$ 404,250**	351,858	319,481	307,319	308,432
Working Capital	**$ 244,994**	178,207	191,942	153,429	93,969
Property, Plant and Equipment, net	**$ 327,219**	325,212	317,798	336,574	305,254
Total Assets	**$ 950,177**	862,135	803,981	812,814	729,811
Long-Term Debt	**$ 150,490**	92,000	93,708	102,482	28,690
Shareowners' Equity	**$ 392,852**	380,041	376,624	356,023	329,019
Per Share of Common	**$ 29.15**	28.24	28.03	26.82	24.82

OTHER STATISTICS *(dollars and shares in thousands)*	1973	1972(e)	1971(e)	1970(c)(e)	1969(e)
Depreciation and Amortization	**$ 40,931**	38,296	37,672	35,720	31,929
Capital Expenditures	**$ 67,489**	55,335	47,105	89,326	77,448
Common Shares Outstanding	**13,477**	13,455	13,436	13,274	13,252
Number of Shareowners	**46,436**	44,893	42,182	44,786	45,780
Number of Regular Employees	**50,400**	52,119	52,073	53,811	51,196

RETAIL FACILITIES *(areas in thousands of square feet)*	1973	1972(e)	1971(e)	1970(c)(e)	1969(e)
Supermarkets					
Opened	**80**	59	67	99	58
Remodeled	**68**	57	74	85	112
Closed	**160**	126	157	94	41
Stores — End of Year	**1,285**	1,365	1,432	1,522	1,517
Total Area	**24,706**	24,896	25,688	26,457	25,917
Drug Stores					
Opened	**36**	46	47	53	37
Closed	**19**	28	20	3	3
Stores — End of Year	**493**	476	458	431	381
Total Area	**4,883**	4,525	4,253	3,946	3,482

(a) Represents earnings before extraordinary loss of $5,340,920 or $.40 per share arising from discontinuance of Family Center operations and credit of $586,877 or $.04 per share resulting from a change in the method of applying an accounting principle.
(b) Represents earnings before extraordinary loss of $4,056,000 or $.30 per share arising from discontinuance of Wisconsin operations.
(c) Fifty-three weeks.
(d) Represents earnings before extraordinary gain of $1,342,120 or $.10 per share arising from sale of investment.
(e) Restated to reflect the change made in 1973 in accounting for inventories.

"Depth in management is a Kroger strength."

OPERATING AND STAFF VICE PRESIDENTS

CORPORATE STAFF

RAYMOND F. ABARAY, *Corporate Controller*
WILLARD R. BEDELL, *Labor Relations*
CARL W. BRIESKE, *Tax Counsel*
WILLIAM G. KAGLER, *Personnel*
LORRENCE T. KELLAR, *Corporate Development*
C. MANLY MOLPUS, *Public Affairs*
JAMES B. PARKER, JR., *Corporate Labor Consultant*

KROGER FOOD STORES

Headquarters Staff

RICHARD L. BERE, *Produce Merchandising*
DONALD J. BERENS, *Real Estate*
ROBERT L. COTTRELL, *Store Operation Services*
BOBBIE L. CRISWELL, *Distribution Operations*
RONALD G. DAUGHERTY, *Logistics Planning*
F. LELAND DAVIS, *Advertising*
THEODORE ENGEL, *Grocery Merchandising*
JACK G. HUDSON, *Controller*
KENT G. SMITH, *Facility Engineering*
ADRIAN L. VANNICE, *Superstore Merchandising*
WALTER W. WHITE, *Distribution Administration*

Retail Operations

BILL G. BEATY, *Indianapolis-Peoria*
NEWTON W. BRIGGS, *Erie Marketing Area*
DAVID A. BURT, *Grand Rapids-Fort Wayne*
WALTER R. DRYDEN, *Cincinnati-Dayton*
ROBERT G. EVERINGHAM, *Houston*
EUGENE W. GRINER, *Peoria*
STANLEY E. HUNGERFORD, *Memphis*
RICHARD M. KOSTER, *Los Angeles*
JAMES A. LeROY, *Louisville*
STEWART W. LONG, *Little Rock*
JOHN W. MARSH, *Pittsburgh*
NERVILLE A. SAWALL, *Detroit-Toledo*
RICHARD D. SCHILL, *Dallas*
EDWIN A. SIEVEKING, *Charleston*
A. WAYNE SMITH, *Allegheny Marketing Area*
CHESTER B. STERN, *Nashville*
HAROLD P. TEMPLETON, *Columbus*
CHARLES L. THOMAS, JR., *Atlanta*
CHARLES W. WHITE, *St. Louis-Kansas City*

KROGER BRANDS

STUART M. BERMAN, *Management Services*
JOHN A. CORNETT, *Dairy Foods Division*
RALPH H. DeSHA, *Processed Meats Division*
FERD M. KISRO, *Poultry and Egg Division*
GEORGE M. LAUGHLIN, *Grocery Products Division*
BOBBY D. REUSSER, *Baked Foods Division*

SUPERx DRUG STORES

Headquarters Staff

N. RONALD ADAMS, *Controller*
CHARLES H. EVANS, *Regional*
GLENN T. EVANS, *Regional*
ALBERT G. HARSNETT, *Sales*
WILLIAM J. HOWE, *Personnel*
CARL L. JESINA, *Administration*
GEORGE W. KEITH, *Marketing*
DAVID W. KUNERT, *Property*

Retail Operations

CLARENCE H. ARCHER, *North Central Division*
WILBERT K. BAUMGARTH, *South Central Division*
CLIFFORD F. CLEAGE, *South Eastern Division*
PAUL W. HALE, *Southern Division*
HERMAN B. HOSKINS, *Western Division*
GORDEN P. SAUE, *Eastern Division*
JAMES A. SPECHT, *Ohio Division*

HAPPY FOOD STORES

SAMUEL D. THOMPSON, JR., President

The Kroger Co.

1014 Vine Street, Cincinnati, Ohio 45201